

National Economic Overview: Impact of the Credit Crisis on Banks and Businesses

October 07, 2009

Together we'll go far





- **Supply**
 - Incentives and Returns

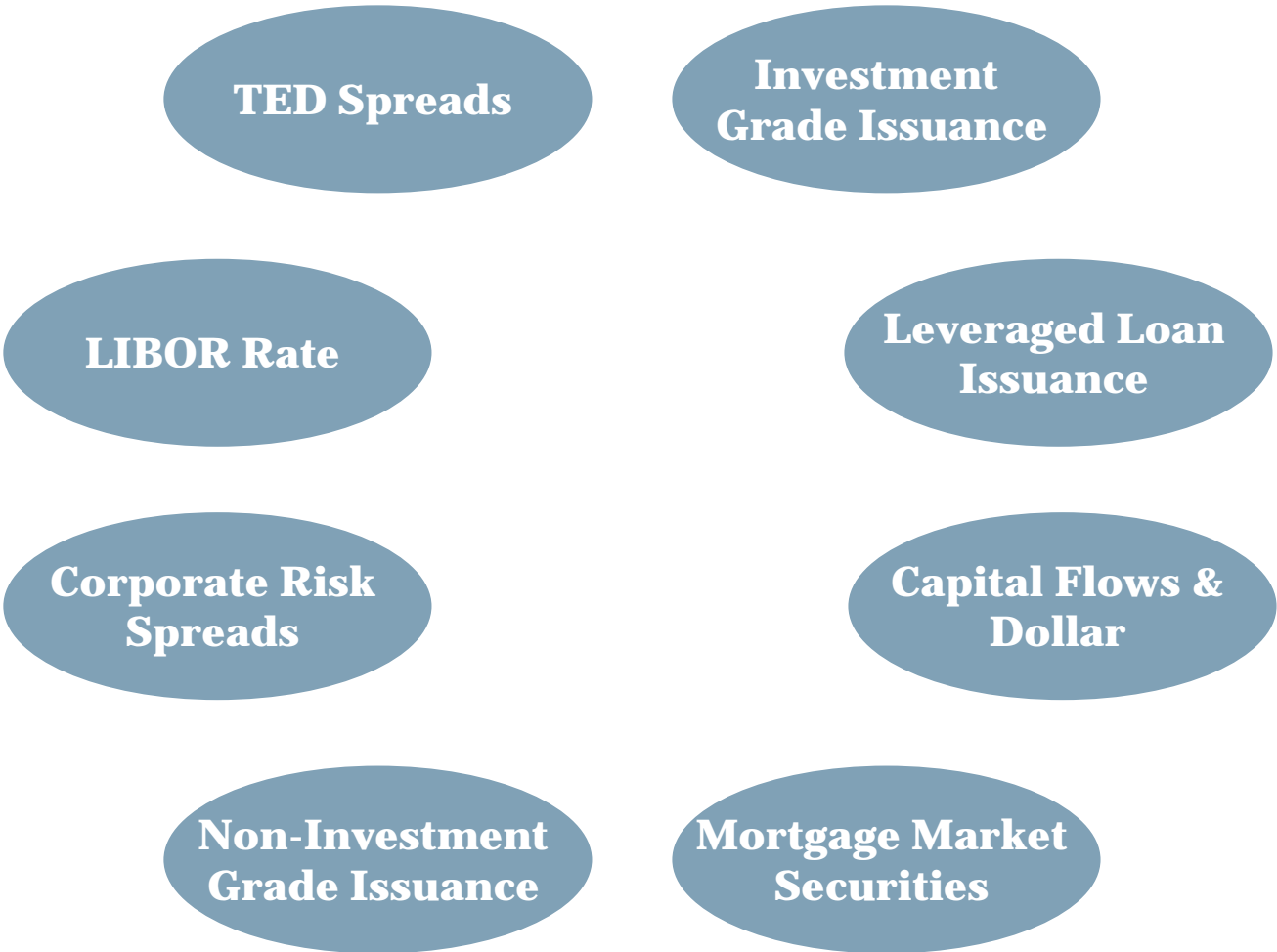
- **Demand**
 - Expected Rate of Return, Income

- **Role of Expectations and the Evolution of the Risk-Reward Tradeoff**
 - Spreads
 - FHFA (formerly OFHEO)
 - Risk: Delinquencies and Foreclosures
 - Asymmetric Information between Borrower and Lender

Safety first

- **Investors Seek Safety; Plunge in T-bill Rate**
- **Counterparty Risk Rose: Protect Liquidity, Wider Spreads on Inter-bank Lending**
- **Issuance and Trading of Structured Products Declined**
- **High Yield Issuance Declined**
- **Leveraged Loans Declined**

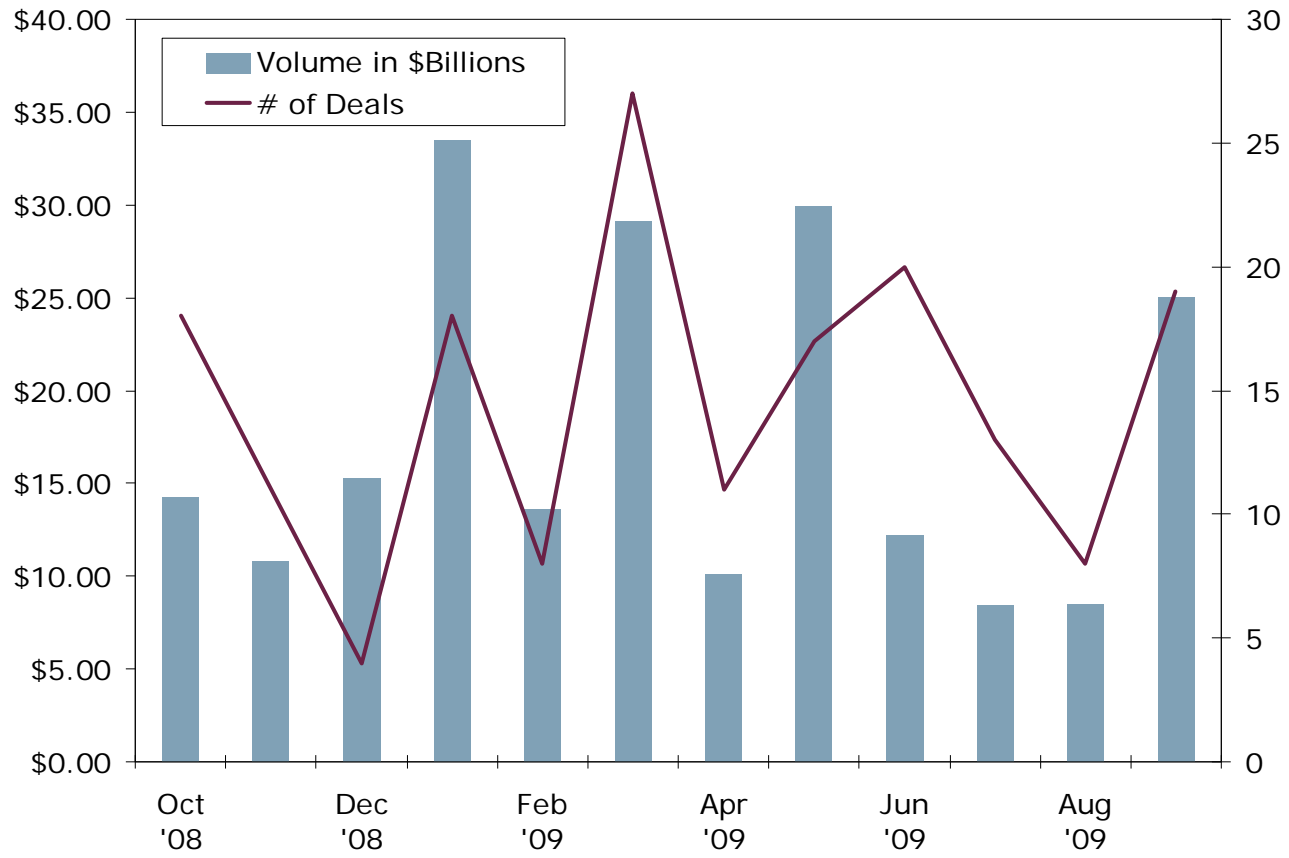
Signs of Adjustment in the Credit Cycle



Bond supply continues

Investment Grade Monthly Issuance

Deals vs. Volume

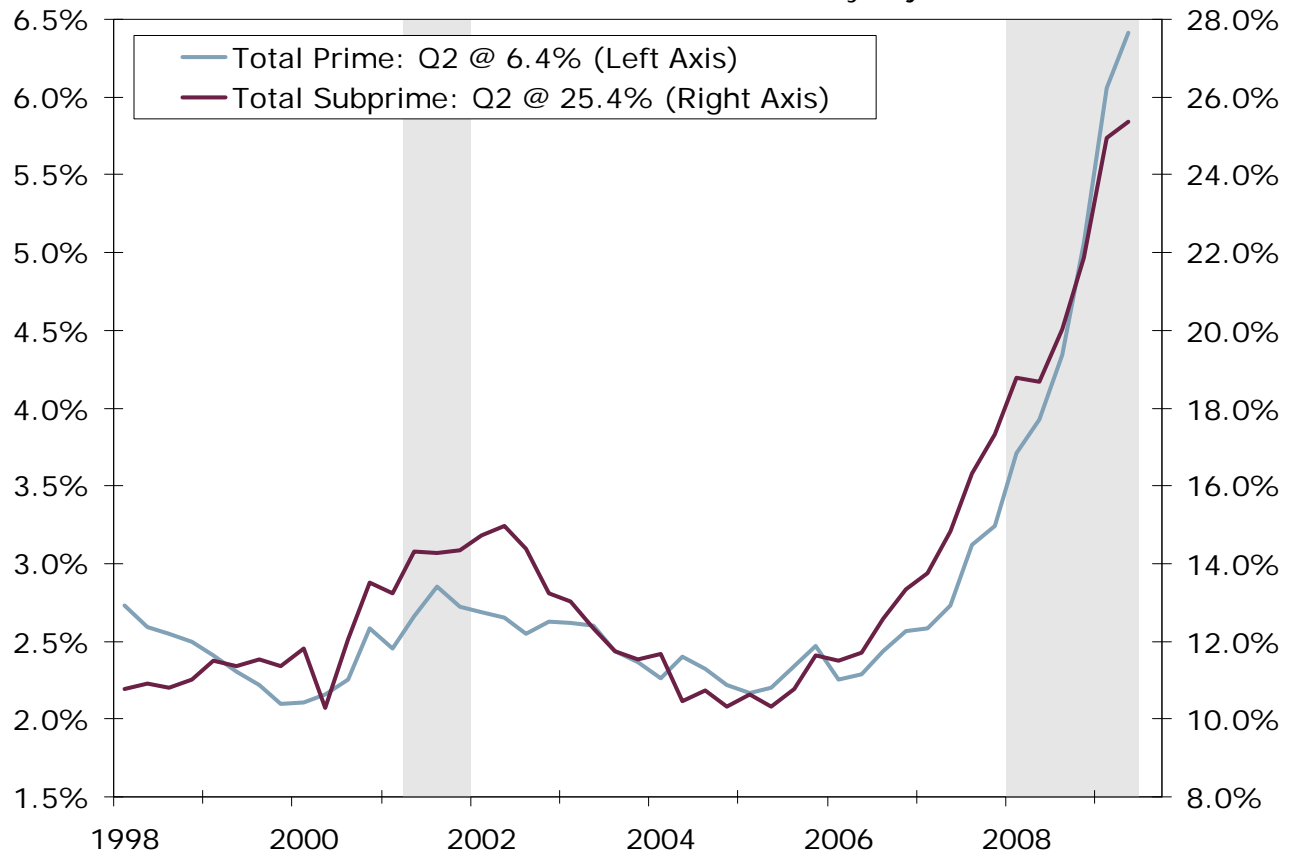


Source: Wells Fargo Securities, LLC

Delinquencies lag
business cycle:
traditional response

Conventional Mortgage Delinquency

Percent of Loans Past Due, Seasonally Adjusted

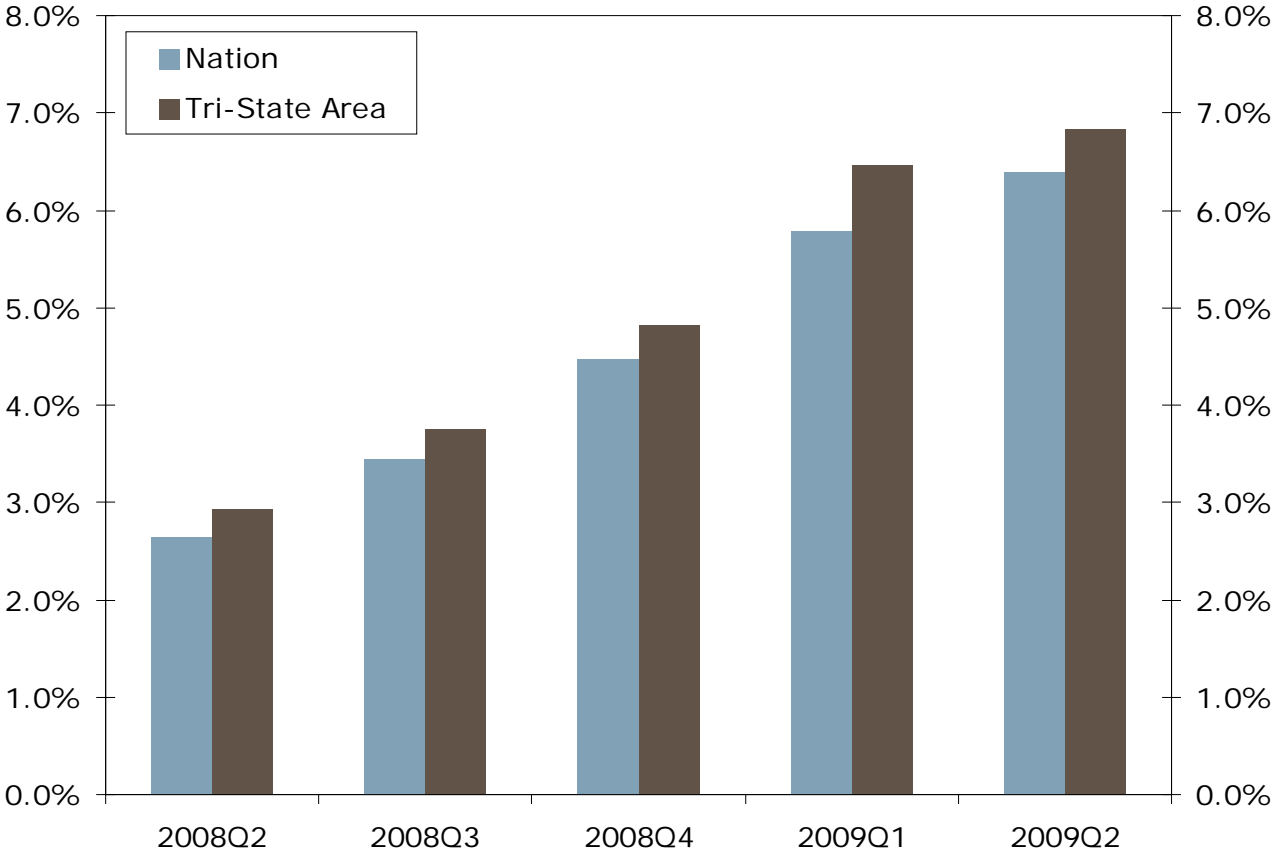


Source: Mortgage Bankers Association and Wells Fargo Securities, LLC

Nonperforming loans lag business cycle: traditional response

Nonperforming Residential RE Loans

As Percent of Total; Large Organizations

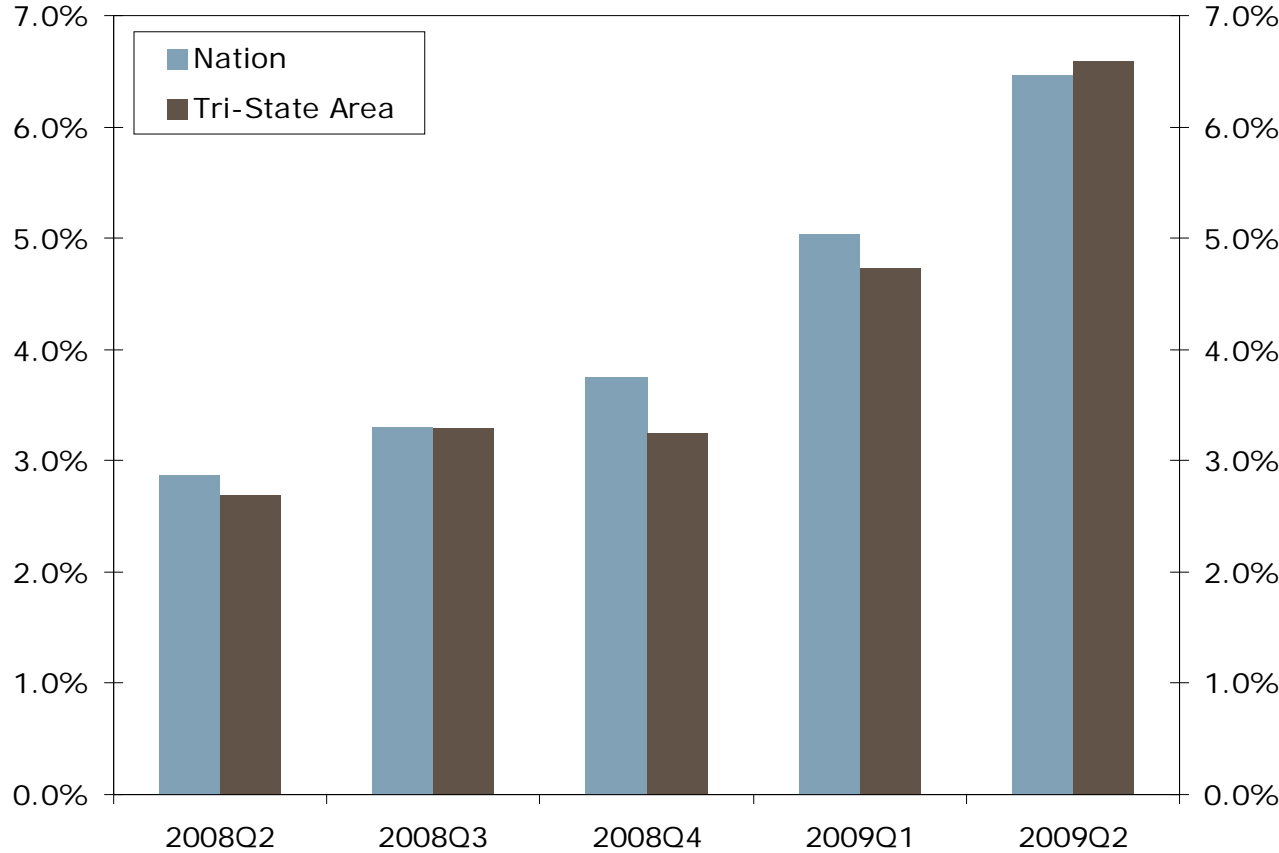


Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities, LLC

Nonperforming commercial real estate loans: traditional response

Nonperforming Commercial RE Loans

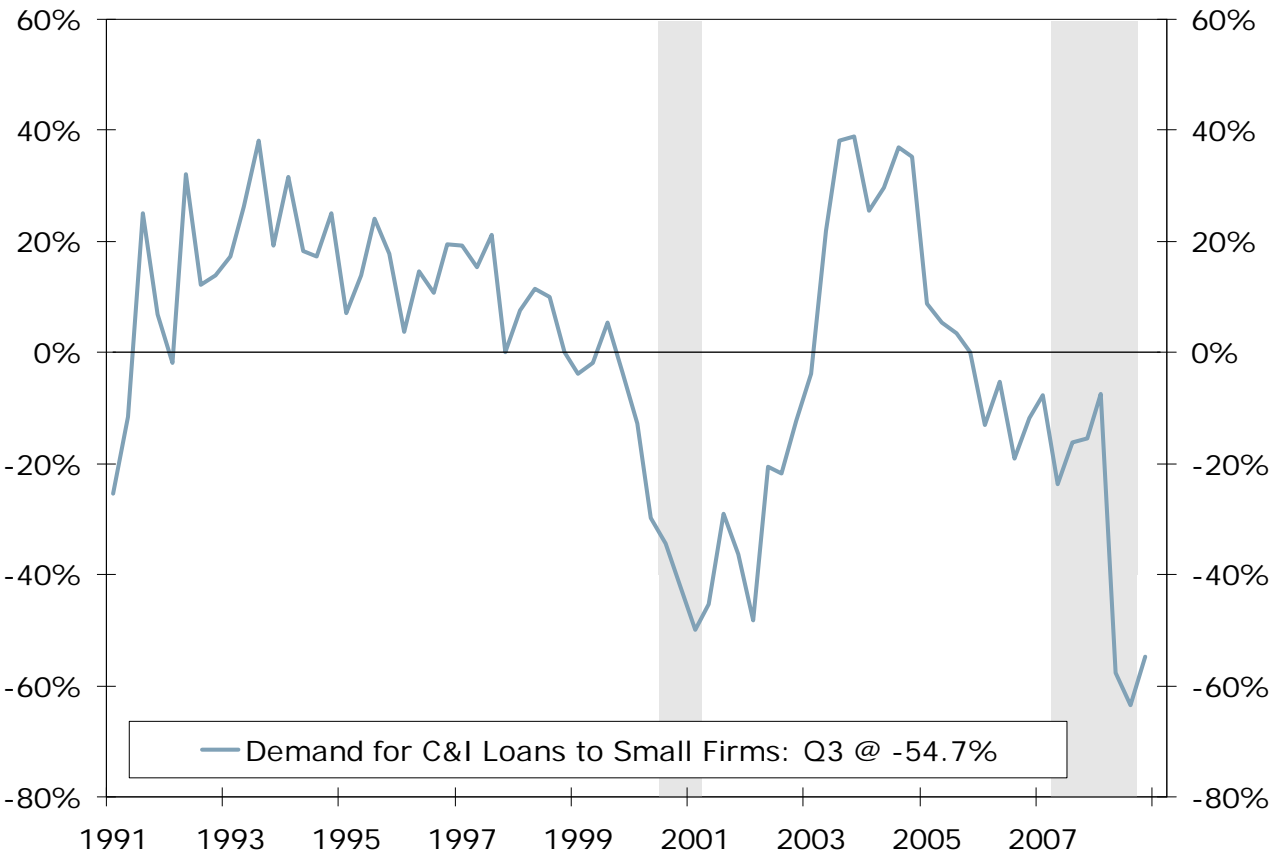
As Percent of Total; Large Organizations



Source: Federal Reserve Bank of Philadelphia and Wells Fargo Securities, LLC

Demand for credit still weak

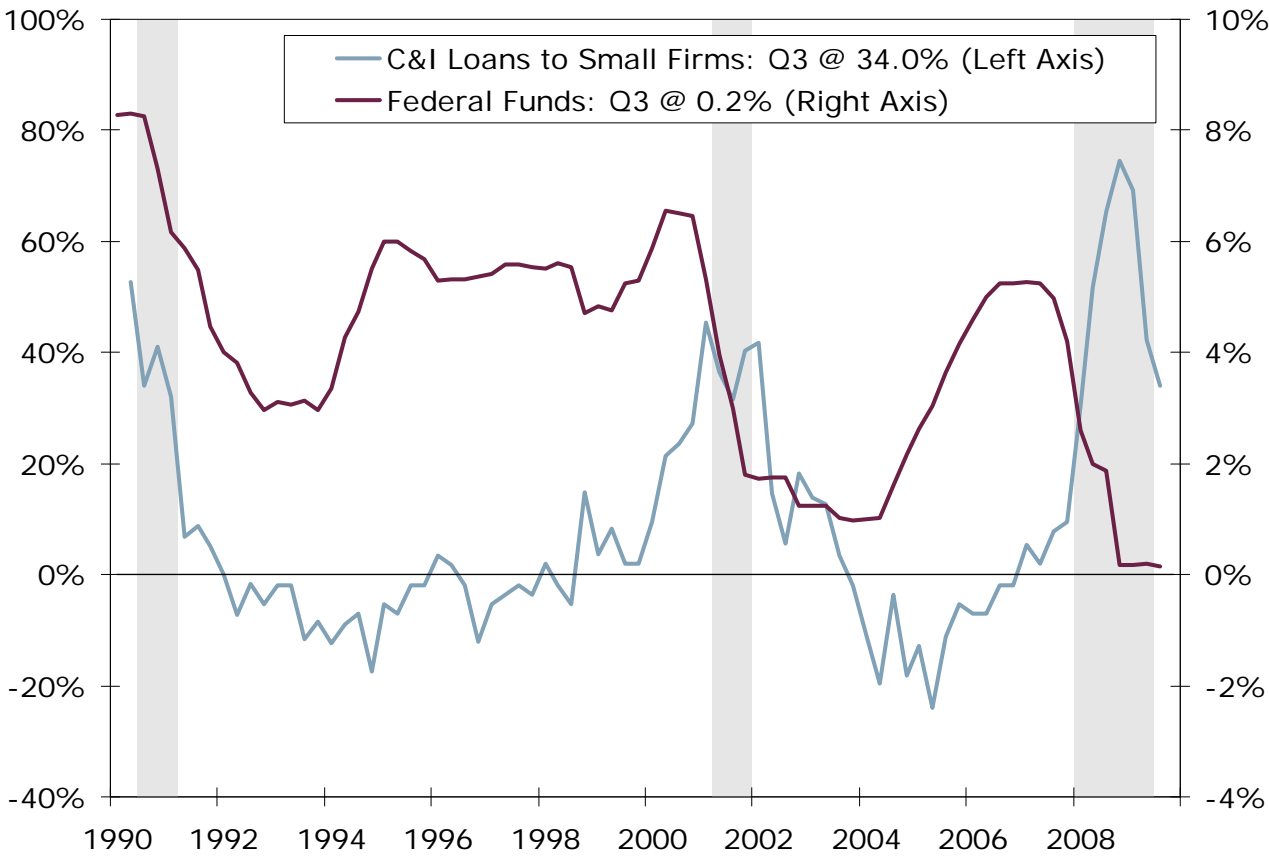
Net Percent of Banks Reporting Stronger Demand Small Firms



Source: The Federal Reserve and Wells Fargo Securities, LLC

Tighter standards:
fewer tightening
typical of late
recession period

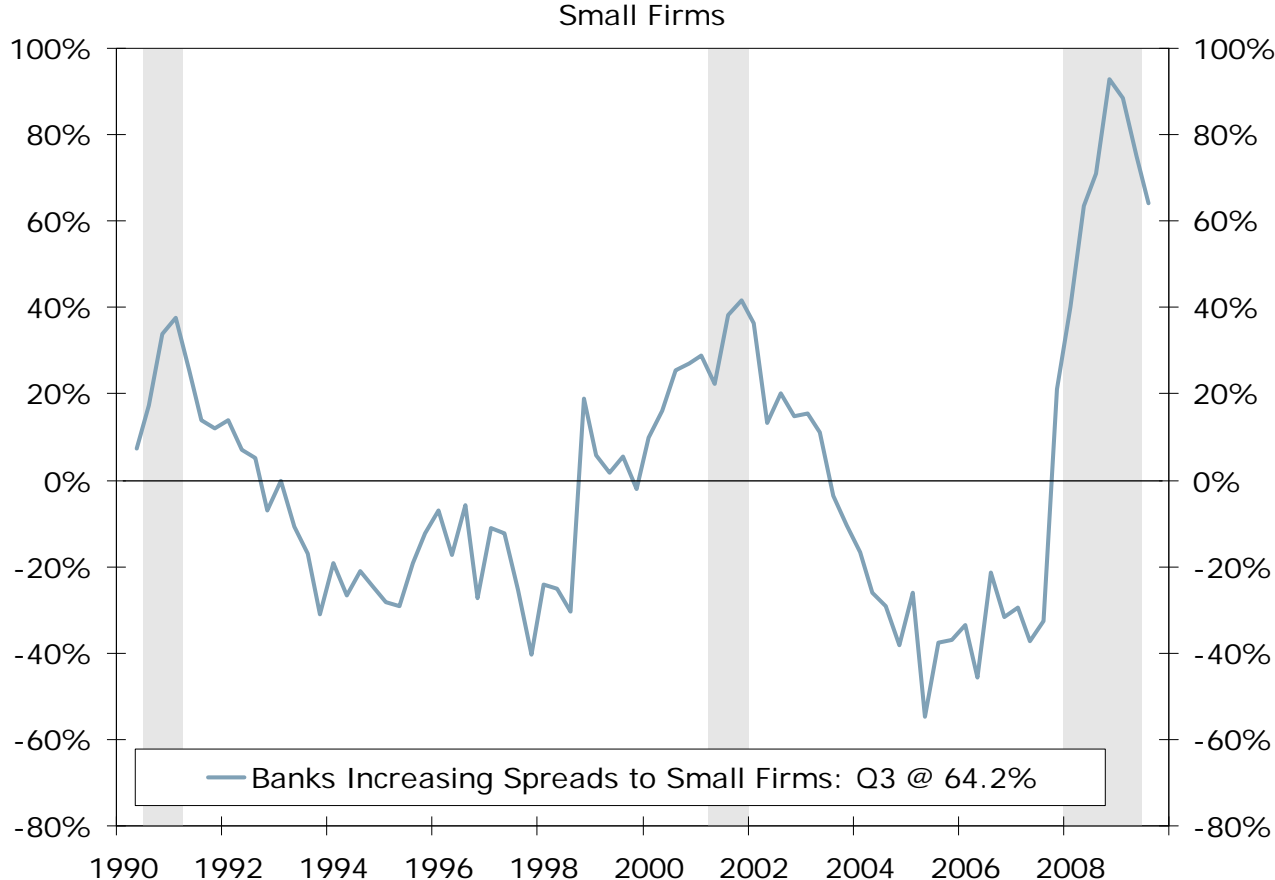
Net Percentage of Banks Tightening Standards
C&I Loans to Small Firms



Source: The Federal Reserve and Wells Fargo Securities, LLC

Spreads: adjustment for risk?

Net Percent of Banks Increasing Spreads



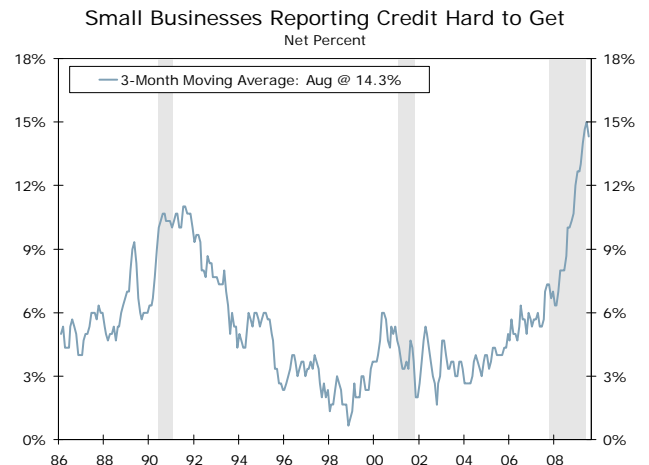
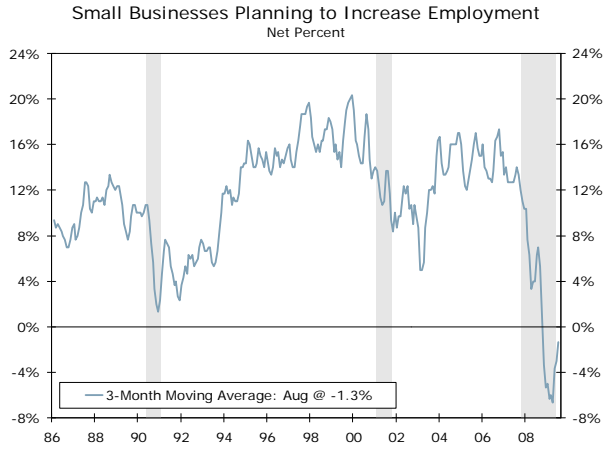
Source: The Federal Reserve and Wells Fargo Securities, LLC

Small businesses are not yet feeling the relief of recovery

NFIB Small Business Optimism		
	<u>August</u>	<u>3 Mo. Ago</u>
Overall Index (1986 = 100)	88.6	88.9
Net Percent Planning to Hire	0	-5
Net Percent Reporting Tighter Credit	14	16
Percent Saying Good Time to Expand	5	5

Renewed confidence is still distant—a bad sign for employment

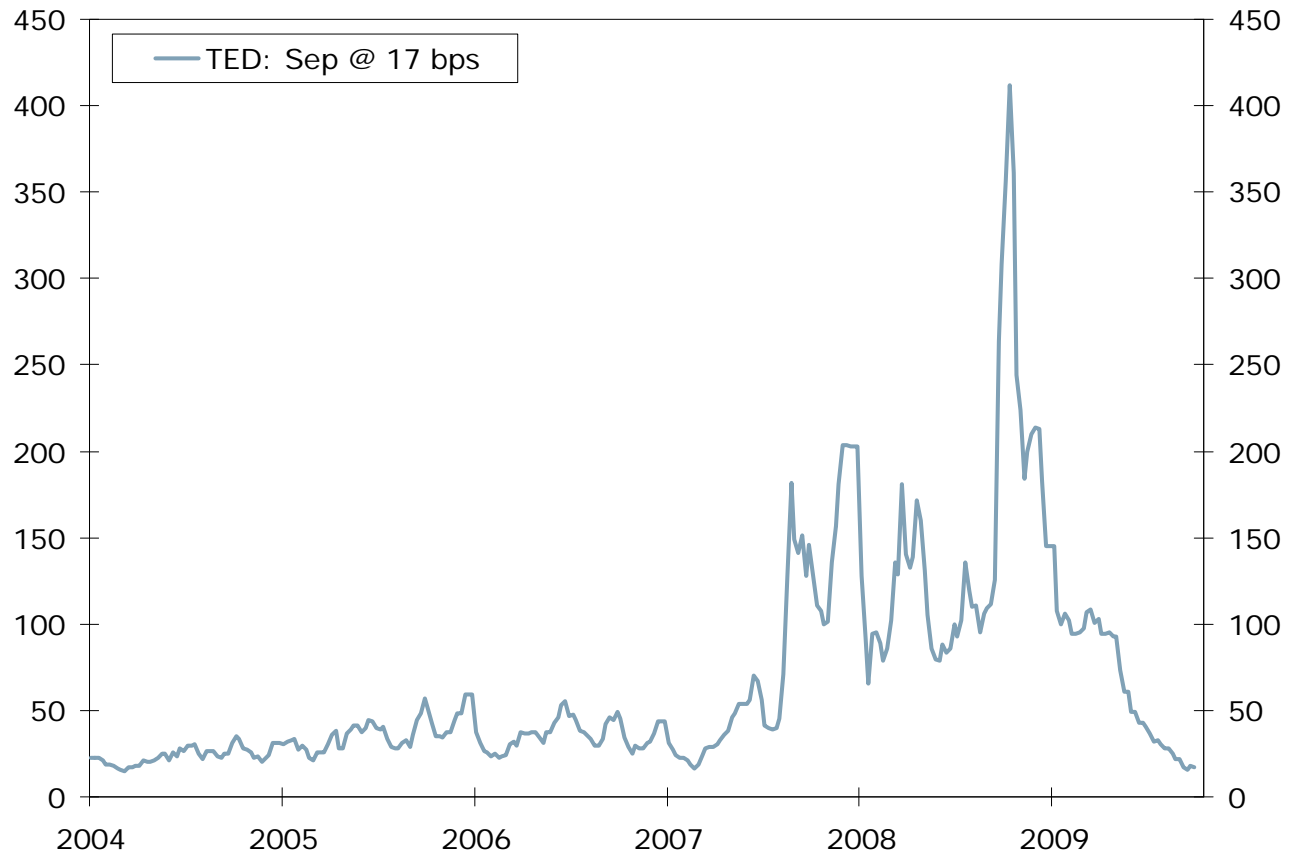
Historical Perspective



Source: National Federation of Independent Businesses and Wells Fargo Securities, LLC

The broad thawing in credit markets has continued at the short end of the yield curve

TED Spread
Basis Points

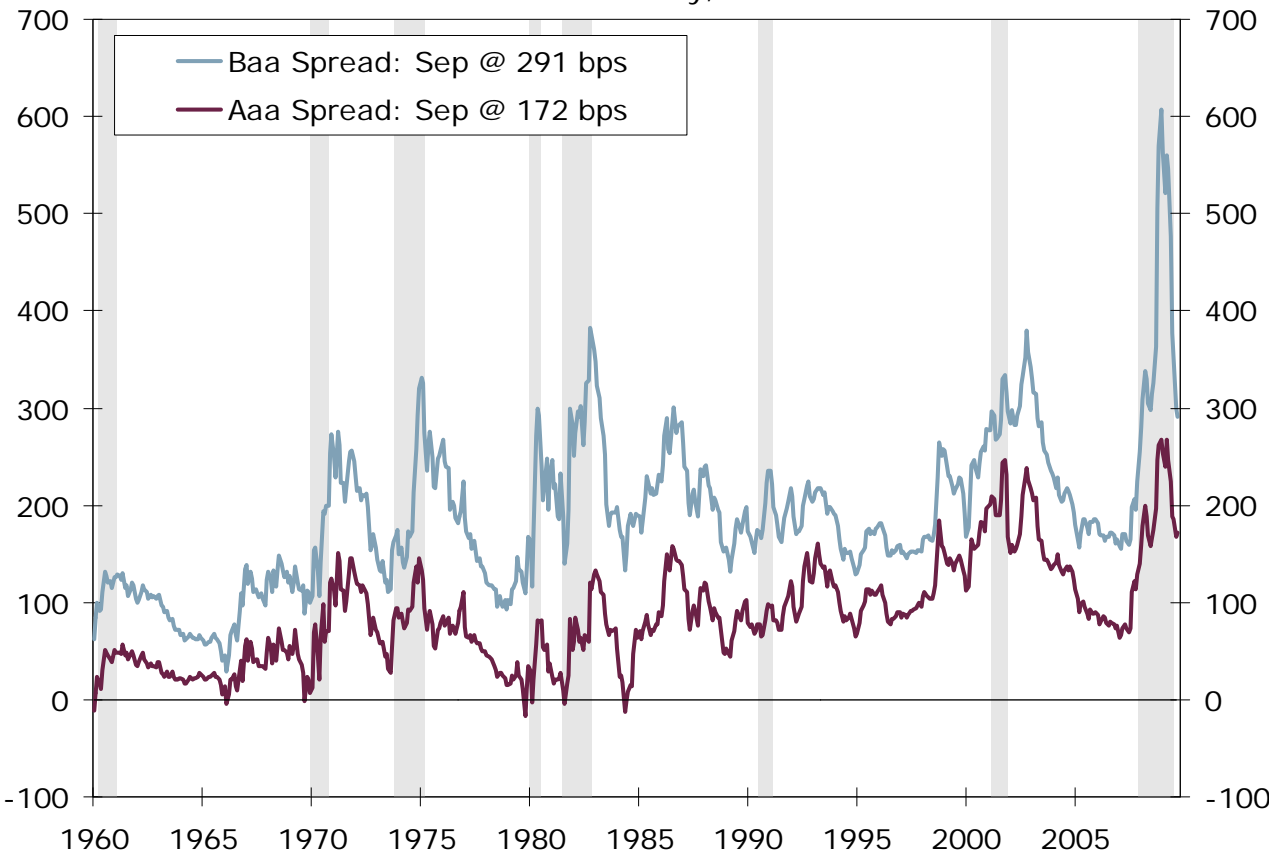


Source: Federal Reserve Board and Wells Fargo Securities, LLC

Spreads have tightened considerably but remain wide historically

Aaa and Baa Corporate Bond Spreads

Over 10-Year Treasury, Basis Points



Source: Federal Reserve Board and Wells Fargo Securities, LLC

Economic Recovery is Here, but Do Not Expect a Rapid Rise

Wells Fargo U.S. Economic Outlook

	Actual				Forecast	
	2005	2006	2007	2008	2009	2010
Real Gross Domestic Product ¹	3.1	2.7	2.1	0.4	-2.5	2.1
Personal Consumption	3.4	2.9	2.7	-0.2	-0.9	0.7
Business Fixed Investment	6.7	7.9	6.2	1.6	-18.4	-1.6
Equipment and Software	8.5	7.4	2.6	-2.6	-18.7	2.6
Consumer Price Index ²	3.4	3.2	2.9	3.8	-0.6	1.3
Corporate Profits Before Taxes ²	16.8	10.5	-4.1	-11.8	-10.1	7.8
10-Year Treasury Note	4.39	4.71	4.04	2.25	3.60	4.00

Forecast as of: September 9, 2009 ¹Compound Annual Growth Rate ²Year-over-Year Percent Change

Source: Wells Fargo Securities, LLC

Appendix

A Sampling of Our Recent Special, Regional & Industry Commentary

Distribution Lists	Recent Special Commentary		
	Date	Title	Authors
▪ Monthly Economic Outlook	October-05	Georgia Economic Outlook: October 2009	Vitner & Kamaruddin
	October-05	Comments Before Federal Reserve Advisory Panel	Silvia
▪ Weekly Economic & Financial Commentary	September-24	What's Wrong With the Dollar?	Bryson
	September-03	Commercial Real Estate Chartbook: Second Quarter	Vitner, Khan & Kamar.
▪ Special Reports	September-02	Clunkernomics: Auto Sales Set to Boost Real GDP	Vitner & Khan
	August-31	Benchmarking Recovery: Rhyming not Repeating	Silvia
▪ Economic Indicators	August-26	Will Debt Restrain Euro-zone Consumer Spending?	Bryson
	August-24	State & Local Financial Woes Still Building	Vitner & Khan
▪ Global Economic Commentary	August-18	Wobbly Fundamentals for Business Spending	Silvia & Quinlan
	August-14	Housing Chartbook: August 2009	Vitner & York
▪ Federal Reserve Commentary	August-14	Healthcare Employment Stays out of the Sick Ward	Silvia, York & Whelan
	August-13	Early Recoveries are Typically "Jobless"	Silvia & York
▪ Real Estate & Housing	July-29	Recession Probability Drops Again	Silvia & Iqbal
	July-21	Decision-Makers' Guide to Stimulus Part Deux	Silvia
▪ Consumer & Retail	July-16	Is China the Next Bubble?	Bryson
	July-08	Macro Clouds, Micro Foundations	Silvia
▪ Chief Economist List	July-01	Pass-Through Effect of Housing Weakness	Vitner & Whelan
	June-30	New Jersey Outlook - June 2009	Vitner, Khan & Kamar.
▪ To join any of our research distribution lists please visit our website:	June-30	Cash-for-Clunkers Boost Likely Unsustainable	Vitner & Khan
	June-29	Breakdown, Adjustment & Rebuilding in Finance	Silvia
▪ http://www.wachovia.com/economicsemail	June-25	Recession Probability Drops Again to 37 Percent	Silvia & Iqbal
	June-19	Labor Market Evolution: Realities and Romantics	Silvia, York & Whelan
	June-18	What Drives Consumer Delinquency Rates?	Vitner & Iqbal
	June-11	Florida Economic Outlook - June 2009	Vitner & Kamaruddin
	June-11	Global Chartbook - June 2009	Bryson & Quinlan
	June-11	Housing Chartbook - June 2009	Vitner & York
	June-10	Consumers Remain Thrifty Amid Economic Turmoil	Vitner & York
	June-04	Past Recessions Suggest Sluggish Road Ahead	Vitner & Khan

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